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RUEHLP/AMEMBASSY LA PAZ 2896  
RUEHPE/AMEMBASSY LIMA 1179  
RUEHSP/AMEMBASSY PORT OF SPAIN 3716  
RUEHQT/AMEMBASSY QUITO 2993  
RUEHSG/AMEMBASSY SANTIAGO 4123  
RUEHDG/AMEMBASSY SANTO DOMINGO 0651  
RHEBAAA/DEPT OF ENERGY  
RHEHNSC/NSC WASHDC  
RUCPDOG/DEPT OF COMMERCE  
RUEATRS/DEPT OF TREASURY  
RUMIAAA/HQ USSOUTHCOM MIAMI FL

C O N F I D E N T I A L SECTION 01 OF 02 CARACAS 000725

SIPDIS

ENERGY FOR CDAY AND ALOCKWOOD, DOE/EIA FOR MCLINE  
NSC FOR RKING  
COMMERCE FOR 4332/MAC/WH/JLAO  
TREASURY FOR RJARPE  
HQ SOUTHCOM ALSO FOR POLAD

E.O. 12958: DECL: 06/08/2019

TAGS: [EPET](#) [EINV](#) [ENRG](#) [ECON](#) [VE](#)

SUBJECT: VENEZUELA: U.S. COMPANY EXTERRAN ASSETS SEIZED

Classified By: Economic Counselor Darnall Steuart, for reasons 1.4(b) and (d).

11. (C) SUMMARY: PDVSA has now seized additional U.S. company assets under the auspices of the May 7 Organic Law permitting the expropriation of companies involved in the oil services industry. Exterrnan (formerly Hanover Compression Corporation and Universal Compression Holdings) confirmed June 8 that PDVSA has seized company assets in Venezuela, including gas compression units and electrical generators. According to a company executive, Exterrnan's assets in Venezuela are held by a Spanish holding company, giving it the option of resorting to international arbitration under Spain's Bilateral Investment Treaty with Venezuela. Representatives of international oil companies (IOC's) involved in joint venture operations with PDVSA have expressed grave concerns about the impact of these seizures on their oil production operations. End Summary.

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EXTERRAN ASSETS SEIZED  
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12. (C) On June 2, Exterrnan filed a Form 8-K with the U.S. Securities and Exchange Commission stating, "In May 2009, three joint ventures in which we have minority interests were named by MENPET (Petroleum Ministry) in those resolutions and their assets were seized. As of June 2, 2009, our wholly owned operations have not yet been named in MENPET resolutions. However, on June 2, 2009, PDVSA commenced taking possession of our assets and operations in a number of our locations in Venezuela." By e-mail June 8, Rob Price, Exterrnan Vice President for Latin America North (protect), confirmed to EconCouns that PDVSA had seized all Exterrnan assets in Venezuela. (NOTE: Exterrnan had minority interests in the Wood Group's Simco and Williams' Wilpro operations in western and eastern Venezuela respectively. END NOTE) Price added that Exterrnan believed the GBRV would issue on June 8 a resolution officially naming Exterrnan as a company whose assets would be seized, however no resolution has yet been

published in Venezuela's Official Gazette, its U.S. Federal Register equivalent. Finally, Price informed EconCouns that Exterranean's assets in Venezuela are held by a Spanish holding company, giving Exterranean the option of resorting to international arbitration under Spain's Bilateral Investment Treaty with Venezuela.

13. (C) Exterranean Vice President Price informed EconCouns June 2 that PDVSA currently owes the company over \$120 million. Another Exterranean executive informed PetAttache June 2 that company representatives had met with PDVSA officials on May 28 who challenged them regarding Exterranean's "lack of performance" and threatened to expropriate Exterranean assets. The Exterranean representatives reportedly focused on the capital intensive nature of their business and explained that the company could not keep pumping money into its assets if PDVSA was not going to pay its bills. According to Price, Exterranean told PDVSA that the equipment needs approximately \$150 million in investment. Exterranean told PDVSA that it could either pay Exterranean the monies it was owed and Exterranean would invest in the maintenance of the equipment or PDVSA could expropriate the equipment and do it themselves. PDVSA asked the Exterranean representatives what it could do to keep Exterranean operating and the company responded with a proposal that PDVSA stay current at \$10 million in monthly costs and pay an additional \$10 million a month on the arrears for a total payment of \$20 million a month. This proposal was put into writing and delivered to PDVSA on May 29.

14. (C) Price informed EconCouns June 2 that 25 units out of a CARACAS 00000725 002 OF 002

national total of 210 were shutdown due to maintenance problems. He speculated that this number would increase to 50 within the next two weeks. Price said flatly that PDVSA is not capable of taking over operation of the Exterranean assets in Venezuela.

15. (C) Petroleum Attache (PetAtt) and visiting Washington energy analyst discussed the situation with two IOC's currently operating in Venezuela under joint ventures with PDVSA. Senior executives of both companies were concerned about the impact of the Exterranean seizures on their own operations. In both cases, Exterranean owned and operated power generation equipment which is critical to continued oil production. In one case, the joint venture has already moved to absorb the Exterranean technical personnel. However, the representatives of both IOC's expressed extreme concern about future maintenance and technical support of the generation equipment upon which their operations rely.

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OTHER NEWS ABOUT SEIZED ASSETS  
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16. (C) In other news about assets seized as a result of the May 7 law, Price noted that Exterranean had heard that one of eight turbines at the Wilpro PIGAP II facilities was already out of service. In a televised June 7 ceremony, PDVSA President Rafael Ramirez announced that some of the 660 vessels seized from oil service companies which previously offered services in Lake Maracaibo, are being used to distribute food across the Lake. He added that others will be used to provide passenger transport services.

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COMMENT  
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17. (C) The units seized from Exterranean compress gas for injection or generate electricity required in the oil fields. Venezuela is unlikely to have the necessary spare parts or qualified technicians to maintain equipment whose maintenance standards are already low because of PDVSA's failure to pay for its upkeep. Any shut down of this equipment is likely to have an immediate impact on Venezuela's oil production.

